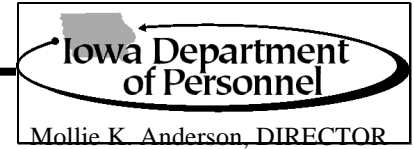


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Financing the Department of Administrative Services Frequently Asked Questions

A Presentation to the
Joint Administration and Regulation Appropriations Subcommittee
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A key goal for the proposed new Department of Administrative Services (DAS) is to make managers of internal services more responsible for pleasing their customers and achieving financial targets.

In the past, the financing structure of these entities made straightforward management accountability difficult. Department budgets focused on maximizing appropriations, rather than the net result of services bought or sold; business-related costs and revenues were likely neither matched nor known. Many internal services operated like monopolies, giving managers little incentive to satisfy customers or control costs. Legislative controls centered on appropriations and staff counts, not operating results.

Though it will take time to implement and debug, the new financing approach for DAS will improve on these areas. Managers will be empowered to focus on winning and keeping customers, equipped with finance and other tools to measure their performance.

1. What is the history of General Fund appropriation and staffing for entities to be in the DAS?

APPROPRIATION HISTORY	FY '00	FY '01	FY '02	FY '03	FY '04	FY '04 %
General Services	\$12,363,447	\$10,444,275	\$9,228,268	\$8,036,419	\$8,313,026	45
Iowa Communications Network (ICN)	3,435,000	3,182,000	2,116,000	1,234,000	500,000	3
Iowa Dept. of Personnel (IDOP)	4,759,353	4,884,280	3,800,572	3,757,125	3,757,125	21
Information Technology	4,802,289	4,656,347	3,243,826	2,967,323	2,967,323	16
Revenue and Finance/Accounting	1,674,677	1,898,179	1,813,220	1,694,097	1,774,102	10
Standing Unlimiteds	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	5
TOTAL	\$28,034,766	\$26,065,081	\$21,201,886	\$18,688,964	\$18,311,576	100 %

It is important to note that DAS agencies have already experienced funding cuts of \$9.2 million during recent fiscal years, a response to state revenue shortfalls. This 33 percent cut in appropriations far exceeds the \$3.1 million in savings originally estimated for a change to entrepreneurial management.

FILLED FULL-TIME EQUIVALENTS (FTES) HISTORY	FY '00	FY '01	FY '02	FY '03	FY '04 %
General Services	342	219	174	166	36
ICN	98	100	102	101	21
IDOP	92	92	86	66	14
Information Technology	0 ¹	136	113	112	24
Revenue and Finance/Accounting	31	31	25	24	5
TOTAL	563	579	502	472	100%

¹ Employees shown in General Services count

2. **What cost savings are anticipated with DAS implementation?** Savings are expected from the changes Governor Vilsack has proposed for two reasons: (1) Giving customers more control over what and from whom they buy usually makes them more cost conscious; and (2) Competition often motivates sellers to lower their costs and improve services.
3. **How will the DAS be financed?** Within the DAS structure, each function is categorized as leadership, marketplace services, or utilities. The role of banker is assigned to the Department of Management (DOM), which will evaluate loan requests from DAS business units and oversee the Innovation Fund.
 - Executive management, policy and regulation for the DAS will be classified as *leadership* functions, and will be funded with General Fund dollars appropriated by the Legislature.
 - A second category is *marketplace services*, those services for which customers will have a choice of vendors in- or outside state government. Dollars to cover startup expenses of marketplace services will come from the Innovation Fund or existing revolving fund balances. After startup, those business units will operate on revenues generated from the sale of their services to DAS customers, without direct appropriation of ongoing funds. Rates for services will be based on prices of comparable services and customer willingness to pay.
 - The third category, *utilities*, will include services for which it makes sense to use a single supplier to achieve economies of scale. Startup expenses will likely come from Innovation Fund loans or existing revolving fund balances, with after-startup funding generated from sale of services to DAS customers—again, with no direct appropriation. Utility rates will be based on the costs of services, and will take into account customer council input regarding the desired levels of service and price sensitivity.
4. **How will General Funds be used?** Once the transition period is complete, General Funds will be used to support DAS leadership activities. Some examples include:
 - DGS: Capitol Complex space rental policy/standards
 - ICN: Education subsidy for video
 - ITD: Progress toward IT architecture and enterprise standards setting
 - IDOP: HR enterprise support, employment and classification
 - Revenue and Finance: Enterprise accounting and payroll systems
5. **How will revolving funds be used?** DAS business units will use revolving funds to bank customer payments and pay costs of providing products and services to their customers. Fiscal year-end revolving fund balances will remain under DAS control for use in lowering rates to customers and/or funding investments to improve services.

6. **How will Innovation Funds be used?** Innovation funds will be “loaned” (with interest) to business units for working capital, startup costs, or capital investments if needed. Such loans will be subject to review and approval of customer councils and the Innovation Fund committee. Loan amounts would be repaid over three to five years from operating revenues generated by sale of DAS services.
7. **How will the accounting system be changed for DAS business units and DAS customers?** The switch to entrepreneurial management offers an opportunity to increase accountability of business units for the benefit of their managers and customers. More information will be collected to produce cash flow analyses, income statement and balance sheet reporting. Initial financial reporting will likely be structured on a modified accrual basis, changing over time to a full accrual mode. Changes in accounting systems of DAS customers are not anticipated.
8. **How will startup costs be funded?** Startup costs can be funded by (1) direct appropriation; (2) balances carried forward from prior year's revolving funds; (3) borrowing that would require repayment; or (4) from start-up funding that would not require repayment.

Adequate working capital must be made available to DAS business units to meet payroll and other financial obligations until business units begin billing and collecting revenues for ongoing working capital. These funds must be available at the beginning of each fiscal period.

9. **What will happen if an enterprise earns more income from the sale of services than it spends?** Earnings in excess of costs will be available to the business unit to assure the long-term financial health of the enterprise. Funds could be used to reduce prices, for technology or equipment upgrades, for new services or product offerings, or for working capital balances.
10. **What will happen if an enterprise loses money on the sale of its services?** DAS business units will need time to ensure that over-recovery issues are resolved, that rates recover depreciation, and that enterprises are accounted for on a full-accrual basis. However, enterprises that lose money will cease to exist over the longer term.
11. **What is the rationale for eliminating FTE caps and appropriations under the new system?** Entrepreneurial management forces managers to focus on providing the best possible service to customers. FTE caps and revolving fund appropriations impede provider flexibility without assuring success in meeting customer needs. In place of these controls, the Legislature will receive more informative management reports on DAS business unit activity.
12. **What DAS financial documents will the Legislature review?** Legislative oversight will continue in the traditional manner for DAS leadership functions. For DAS marketplace services and utilities, legislators will review business plans and non-financial documents including status reports and results-based performance measures.

13. **Will DAS financing solve the federal over-recovery problem?** No. Neither the planned consolidation nor entrepreneurial management is intended to solve this problem. The primary solution to over-recovery (cross subsidization among business units) is adequate General Fund support for customers using shared internal services. This will address the problem on a "go forward" basis.

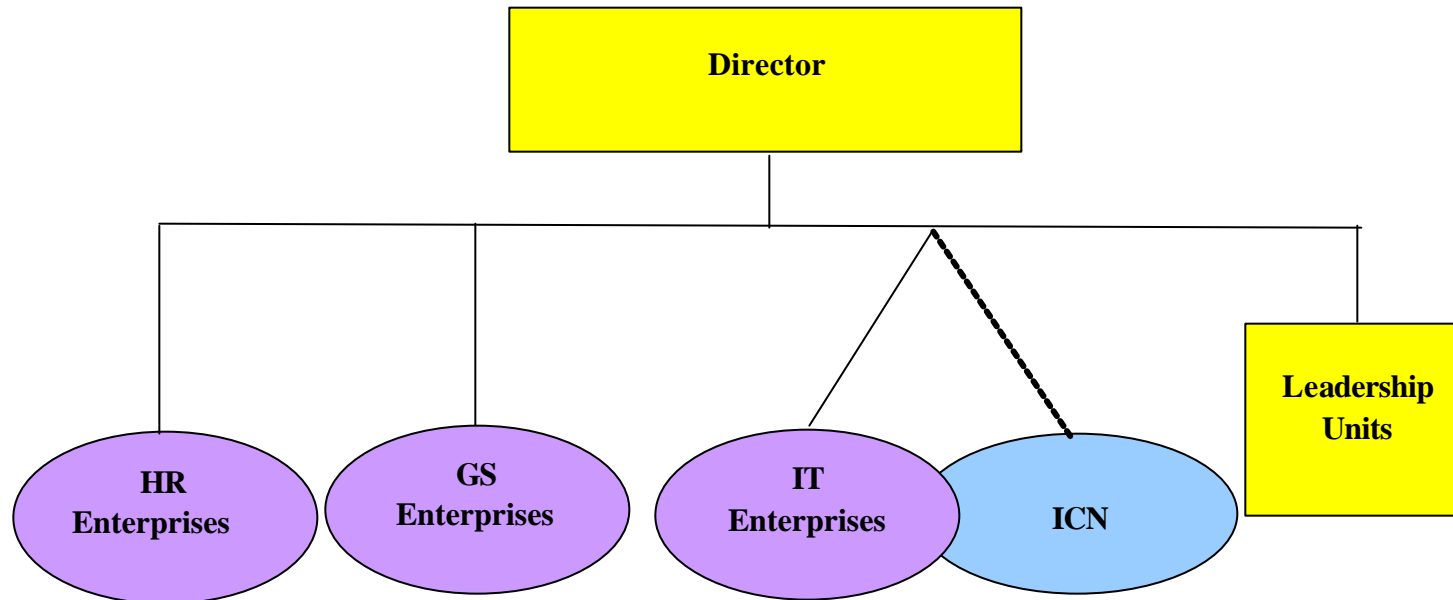
14. **What funding sources will make up DAS revenues in FY 2004?**





	<u>General Fund Operations</u>		<u>Other Operating Funding Sources (Incl Revolving Funds)</u>
	<u>Appropriations</u>	<u>Receipts</u>	
<u>General Services</u>			
Operations	\$5,413,749	\$861,712	
Utilities	1,817,095	139,211	
Rentals	846,770	814,464	
Terrace Hill	235,412	50,000	
	<u>8,313,026</u>	<u>1,865,387</u>	
Centralized Purchasing			1,118,960
Fleet			922,388
Centralized Printing			1,404,173
<u>Iowa Communications Network</u>			
Education Subsidy for Video Operations	500,000		31,951,059 *
<u>Iowa Technology</u>			
Operations	2,967,323		20,534,808 *
<u>Personnel</u>			
Operations	3,757,125	924,421	601,754
Administration of programs			684,700 *
<u>Revenue and Finance</u>			
Accounting Bureau	1,717,601	359,405	
Deferred Compensation Upgrade	56,501		
	<u>1,774,102</u>	<u>359,405</u>	
<u>Standing Unlimiteds</u>			
Federal Cash Management	550,000		
State Unemployment	450,000	90,000	
	<u>1,000,000</u>	<u>90,000</u>	
TOTAL GENERAL FUND	<u>\$18,311,576</u>	<u>\$3,239,213</u>	

Non-appropriated

*

Department of Administrative Services Structure and Projected Funding Sources



-  Leadership functions will be funded by appropriations from the General Fund, at startup and ongoing.
-  Utilities will be funded by Innovation Fund loans or existing revolving fund balances at startup, then by rate payments from customers (from any customer funding source) on an ongoing basis.
-  Marketplace services will be funded by Innovation Fund loans or existing revolving fund balances at startup, then by revenue from the sale of goods or services (from any customer funding source) on an ongoing basis.
-  These enterprises house both utilities and marketplace services.

April 7, 2003